

**Bob Holden**  
Governor



**Jacquelyn D. White**  
Commissioner

State of Missouri  
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**Jack Dothage**  
Interim Director  
Division of Accounting

December 8, 2004

The Honorable Bob Holden  
The Honorable Members of the Legislature  
Citizens of the State of Missouri

In accordance with generally accepted accounting principles, I submit to you the Comprehensive Annual Financial Report of the State of Missouri for the fiscal year ended June 30, 2004. This report was prepared by the Office of Administration, Division of Accounting, whose management is responsible for its contents.

The report is prepared to show the financial position and operating results of the State. The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit. We believe the data presented is accurate in all material respects and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial activities have been included.

An annual audit of the basic financial statements is completed each year by the State of Missouri Auditor's Office. The State Auditor conducts the audit in accordance with generally accepted government auditing standards, and her opinion has been included in this report. The State Auditor conducts a "Single Audit" of all federal funds in accordance with the Federal Single Audit Act of 1984, and the U.S. Office of Management and Budget Circular A-133, "Audit of State and Local Governments and Non-Profit Organizations."

The State's financial statements have been prepared using the financial reporting model set forth by the Governmental Accounting Standards Board Statement No. 34. This is explained further in the *Management's Discussion and Analysis (MD&A)* section of this report. Other necessary disclosures are included in the *Notes to the Financial Statements*.

This report includes funds of various departments, agencies, and other organizational units for which the State is financially accountable. The various agencies, departments, boards, commissions, and accounts of the State that constitute the State's reporting entity are included in this report in accordance with criteria established by the Governmental Accounting Standards Board. Note 1 of the *Notes to the Financial Statements* provides a complete listing of the component units.

## PROFILE OF THE GOVERNMENT

Missouri was organized as a territory in 1812 and was the second state (after Louisiana) of the Louisiana Purchase to be admitted to the Union. Statehood was granted on August 12, 1821, making Missouri the 24<sup>th</sup> state. The State encompasses 68,945 square miles.

The State operates under three branches of government: executive, legislative, and judicial. The executive branch consists of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, and Attorney General. The legislative branch consists of 34 members of the Senate, and 163 members of the House of Representatives. The judicial branch is a three-tier court system. The Supreme Court, the State's highest court, has statewide jurisdiction; a court of appeals that consists of districts established by the General Assembly; and a system of circuit courts that has original jurisdiction over all cases and matters, civil and criminal.

The State provides a range of services in the areas of agriculture, education, health and social services, transportation systems, public safety, law enforcement, judicial systems, economic development, conservation and natural resources, labor relations, and general administration.

The State operates on a legally adopted budget in order to ensure compliance with legal provisions embodied in the annual appropriated budget passed by the General Assembly and approved by the Governor prior to the beginning of the fiscal year. If appropriations are not sufficient for a fiscal year, supplemental amounts are requested during the next legislative session by the same process that original appropriations are requested. Budgetary control is maintained at the departmental level. Expenditures cannot exceed the appropriation amount at the individual appropriation level. Also, the Governor has the authority to reduce the allotments of appropriations in any fund if it appears that the revenue estimate will not be met. Unexpended appropriations lapse at the end of each appropriation year, unless reappropriated to the following appropriation year.

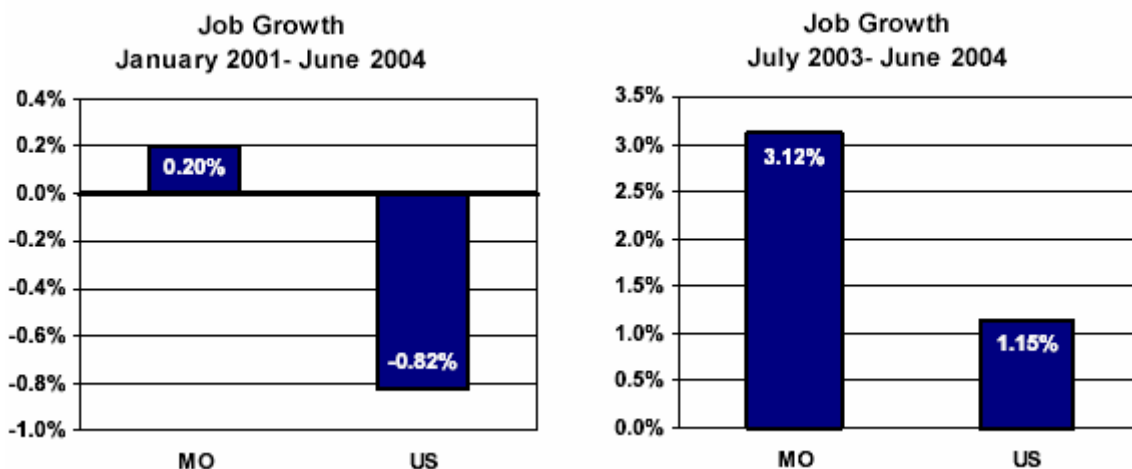
## ECONOMIC CONDITION

### Local Economy

Missouri's economy is both diverse and growing. Key economic activities of the State include manufacturing, extractive industries, and agricultural and food production. Missourians have strategic competencies and expertise in the following business sectors: manufacturing – lumber and wood products, paper products, greeting card publishing, and motor vehicles; extractive industries – lead mining, cement, paving and asphalt products, and lime and stone quarrying; agricultural and food production – agricultural chemicals, feed grains, cattle, hogs, pet foods, pasta products, poultry processing, and cereals.

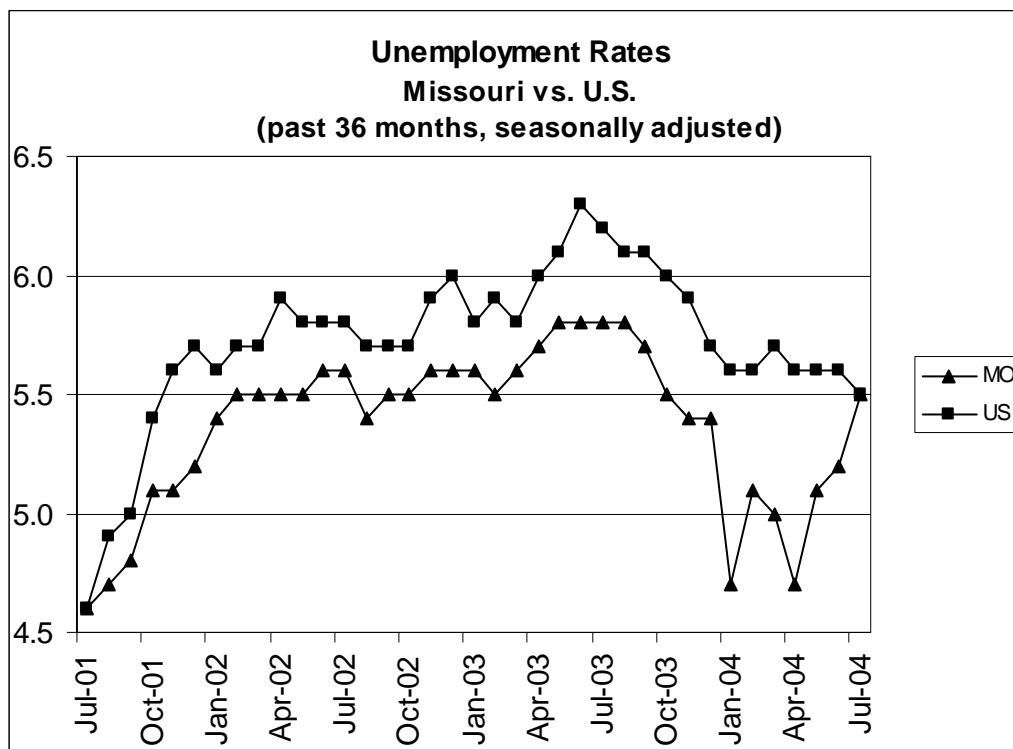
Over the past year, Missouri's exports to other countries have increased substantially resulting in Missouri having the sixth highest export rate in the nation. Through the third quarter of 2004, the majority of exports were sold to Canada at approximately \$3 billion, however, substantial exports were also sold to Mexico – \$624 million, Japan – \$323 million, and China – \$283 million. Although diverse products are exported each year, those products with exceptionally high growth rates include minerals and ores, transportation equipment, agricultural products, and chemicals.

Along with Missouri's improving economy, the employment market has also been improving. Since July 2003, national employment has grown by 1.15%, while Missouri employment has grown by 3.12%. June of 2004 showed strong growth and moved Missouri's employment 5,600 jobs above the January 2001 level, the first time cumulative change from the beginning of 2001 has been positive. Missouri is one of only 19 states and the District of Columbia to have registered an increase in the number of jobs since the start of 2001.



Source: Missouri Economic Research and Information Center in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics

Missouri's unemployment rate has been below the U.S. rate, sometimes by a half point or more. The State's rate peaked at 5.8% between the periods of May 2003 to August 2003, and began to edge down after August. About 19,000 fewer Missourians are unemployed now than in June 2003, making the June 2004 unemployment rate 5.2%. The national unemployment rate for June 2004 was 5.6%.



Source: Missouri Economic Research and Information Center in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics

Additional evidence of an improving economy is supported by personal income statistics, which is a measure of income received from production, government or business, and government interest payments before taxes. Missouri's personal income rose by 2.5% in 2003 to total almost \$166 billion annually. The 2.5% increase is above the national average of 2.2%, and it is the 2<sup>nd</sup> highest increase compared to the 8 states bordering Missouri. Per capita personal income also increased during 2003 to an average of \$29,094 per year. The average national per capita personal income totaled \$31,459. Although Missouri's per capita income is below the national average, as of the 2<sup>nd</sup> quarter of 2004, Missourians live and work where the cost of living ranks 11<sup>th</sup> lowest in the nation.

### Long-Term Financial Planning

Missouri funding priorities include education, health care, law enforcement, and economic development. In order to maintain adequate funding for those programs, streamlining the State government and reducing expenses have been emphasized. Cost savings have been achieved by reducing the number of state employees, restructuring debt, reducing procurement costs by consolidating the State's buying power, reducing the number of State owned vehicles, reducing Medicaid costs by implementing a prescription drug program, and reducing law enforcement expenses by closing inefficient prisons. Other cost reductions have been achieved through the use of new technologies and the Internet. In addition, some long-term construction and capital improvement projects have been postponed until future years.

### Relevant Financial Policies

When increased efficiency and cost reductions have not been sufficient to fully fund Missouri's programs, budget gaps have been temporarily filled by one-time funding sources. The use of these non-recurring funds has increased from fiscal year 2003 to fiscal year 2004. Sources of non-recurring money included tobacco settlement payments, intergovernmental transfers, and federal fiscal relief from the Jobs and Growth Tax Relief Reconciliation Act of 2003.

The complexity of using non-recurring money to fund on-going state operations is growing since the cost of services, such as health care for Medicaid recipients and elementary and secondary education funding under the Foundation Formula, continue to grow without a corresponding growth in revenue. In future years, budget shortfalls will need to be addressed through either additional revenues (recurring or non-recurring) or significant cost reductions in the various state programs.

### **Major Initiatives**

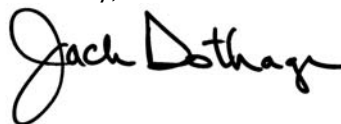
Balancing Missouri's budget in fiscal year 2004 was achieved through sound financial management. At the beginning of the fiscal year, it was estimated that the State would see a slight decline in revenues, but it was later determined that revenue growth would be higher than expected. The higher than expected revenue growth, along with the federal moneys received pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, prevented significant cuts to education and health care for fiscal year 2004 through December of fiscal year 2005. Personal income trends indicate that Missouri can expect moderate growth during fiscal year 2005. In future years, Missouri will continue to focus on controlling the growth of mandatory programs through various cost-effective alternatives.

### **ACKNOWLEDGEMENTS**

While the Office of Administration, Division of Accounting, is responsible for the contents of this report, no one division could do it alone. Many people were involved in the compilation of materials necessary to complete the report.

We want to issue a special thanks to all the personnel at the State agencies who provided us with information quickly and accurately so that we could issue the CAFR in a timely manner. We also owe thanks to the professionalism and dedication demonstrated by technical and management personnel within the State Auditor's Office, the State Treasurer's Office, Office of Administration, Division of Information Services, and the State Printing Center. We are greatly appreciative to all.

Sincerely,

A handwritten signature in black ink that reads "Jack Dothage". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Jack Dothage, Interim Director  
Division of Accounting